

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 04-60573-CIV-MORENO/SIMONTON

SECURITIES AND EXCHANGE
COMMISSION

Plaintiff,

v.

MUTUAL BENEFITS CORP.
JOEL STEINGER a/k/a JOEL
STEINER, LESLIE STEINGER a/k/a
LESLIE STEINER, PETER
LOMBARDI and STEVEN STEINER,

Defendants,

VIATICAL BENEFACTORS, LLC,
VIATICAL SERVICES, INC.
KENSINGTON MANAGEMENT, INC.
RAINY CONSULTING CORP.,
TWIN GROVES INVESTMENTS, INC.,
P.J.L. CONSULTING, INC., SKS
CONSULTING, INC. and CAMDEN
CONSULTING, INC.,

Relief Defendants,

TWENTIETH REPORT OF THE RECEIVER

Roberto Martínez, court-appointed receiver (the "Receiver") of Mutual Benefits Corp. ("MBC"), Viatical Benefactors, LLC ("VBLLC"), Viatical Services, Inc. ("VSI"), and Anthony Livoti, Jr. and Anthony Livoti, Jr. P.A. solely in their capacity as trustee (collectively the "Receivership Entities") submits this Twentieth Report of the Receiver. This Report addresses the status of the policy disposition process, including the implementation of the billing and collection process for those policies that investors

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voted to retain and assume responsibility for payment of their share of the premiums (“the Keep Policies”). This Report also describes the critical nature of the declining cash balances on the MBC Premium Account.

STATUS OF THE POLICY DISPOSITION PROCESS

**INVESTORS MUST PAY TO VSI ON TIME
THEIR PREMIUM OBLIGATIONS ON THE KEEP POLICIES**

VSI'S ABILITY TO PAY PREMIUMS AS THEY BECOME DUE ON THE KEEP POLICIES IS DEPENDENT ON THE INVESTORS PAYING THEIR PREMIUM OBLIGATIONS TO VSI ON TIME. UNLESS ALL INVESTORS PAY THEIR SHARE OF PREMIUMS ON TIME, POLICIES WILL LAPSE. AS SUCH, THE RECEIVER REMINDS ALL INVESTORS WHO VOTED TO KEEP AND NOT SELL THEIR POLICIES THAT THEY MUST PAY THEIR PREMIUM OBLIGATIONS TO VSI FULLY AND ON TIME TO AVOID THE LAPSING OF POLICIES.

History of the Policy Disposition Process

On September 14, 2005, this Court entered its Order on Disposition of Policies and Proceeds [D.E. 1339] (the “Disposition Order”). On November 22, 2005, the Court entered its Order Clarifying Disposition Order and Approving Form of Notice [D.E. 1474] (the “Clarification Order”). These Orders collectively directed the Receiver to provide all investors with the opportunity to vote whether they wanted (a) to consent to the sale of their interest by the Receiver; (b) to retain or take over their interest in the policy and assume responsibility for payment of their share of the premiums, including the premiums past life expectancy; or (c) to allow their interest to lapse (“Investor Voting

Process”). The decision as to how to dispose of each policy was to be determined by the vote of the majority of the interests of those voting. The Court also provided a process for sales by investors to investors for those policies in which dissenting investors wished to sell their interests to investors voting to retain or take over their interests (“Investor to Investor Sales Process”).

The Court ordered that during the administration of the disposition process, the Receiver would continue to pay premiums for all policies from the receivership’s premium escrow accounts.

Investor Voting Process

In accordance with the Disposition and Clarification Orders, the Receiver immediately undertook steps to implement the disposition process. By January 13, 2006, 52,239 Notices and Preference Forms had been mailed to 30,386 investors inviting their vote on the disposition of their investment interest in 6,901 active policies. The final deadline for receipt of these Preference Forms was April 14, 2006.

As part of the Investor Voting Process, investors were warned of the risks of voting to keep their policy interest. As reflected in the Notice to Investors (which was mailed to each investor in conjunction with their Voter Preference Form), the investors were told that:

If you retain your interest in the Policy, subject to the risks outlined below, you will receive your pro rata share of the death benefits when the Policy matures. The risks of investment have not changed since the time of your initial investment, and in fact, in certain instances are increased, primarily because you will share the obligation to maintain the Policy with many other investors. **These risks include, but are not limited to,** (emphasis added) the following:

- (a) If at any time until the Policy matures, you, or any other investor retaining his interest in the Policy, fails to timely pay any premiums due, and the other investors don’t assume the obligation to pay the non-paying

investor's premium obligation pro rata, **the Policy may be sold, and if it cannot be sold, it could be surrendered, and you could lose your entire investment.**

(b) Your obligation to pay the premiums and the cost of administering the Policy will continue until the Policy matures, and the Policy may not mature for many years.

(c) Unless your Policy is a whole-life policy, the annual premium costs could increase each year significantly until the Policy matures and there is no way to calculate how much those premiums could increase until the Policy matures. There is no guarantee how long a Delayed Premium Obligation will pay, or reduce the cost of, premium payments.

(d) In certain instances the face amount of the Policy may actually decrease or the Policy value could be lost completely so that you may lose all or part of your investment.

(e) In certain instances a viator cannot be located and the Policy could mature without anyone's knowledge.

(f) If the insurance company refuses to pay death benefits upon maturity you may lose all or part of your investment.

The total number of policies receiving a voting decision was 6,432, corresponding to a total face value of \$1.46 billion. In spite of the known and unknown risks, investors elected to keep 3,052 policies, with a total face value of \$1.05 billion (the "Keep Policies"). In comparison, investors voted to sell 3,158 policies, with a total face value of \$383.3 million (the "Sell Policies"), and elected to surrender 123 policies, with a total face value of \$7.5 million. In addition, during the voting process, 99 policies matured with a face value of \$22.7 million. Finally, there were 472 policies, with a total face value of \$47.6 million, in which there were no votes.

Status of Sell Policies

As a result of the disposition process directed by the Disposition Order, approximately 3,700 policies with a face value of approximately \$430 million were designated to be sold. The Receiver determined that the best method to sell these policies was to divide them into portfolios, which would then be subject to a competitive bidding process.

The initial portfolio selected for sale consisted of policies with a cash value of at least 5% or greater of the policy's face value ("Pool 1"). Using this criterion, the Pool 1 Portfolio consists of 1,405 policies, with a total face value of approximately \$119 million, and an approximate net cash surrender value of \$12.7 million. The minimum bid established by the Receiver for the Pool 1 Portfolio was to exceed the cash surrender value of \$12.7 million, adjusted for any matured policies. The competitive bidding process generated the solicitation of a "Stalking Horse" bid reflected by a proposed purchase agreement that has served as the leading initial bid for the Pool 1 portfolio. That leading initial bid is to be subject to further competitive bidding at an auction sale to take place on April 6, 2007.

The Pool 2 policies, consisting of those policies with little to no cash value, also will be sold as a group via an auction process. The Receiver has prepared these policies for auction and intends to complete the sale by May, 2007.

Investor to Investor Sales Process

Subsequent to the conclusion of the Investor Voting Process, as required in the Disposition Order, on April 21, 2006, the Receiver commenced an Investor to Investor Sales Process that facilitated the sale of interests by investors who voted to sell their

- Investors failing to return administrative fees would forfeit their policy interest.

- Day 50 Reallocate ownership interests and mail premium invoice to investors on policy that sent in administrative fee on a timely basis (90 Days notice given).

- Day 100 Send Reminder Notice to investors that have not yet sent in premium payment.

- Day 140 Deadline for return of premium payments by investors.

- Investors failing to return premium payment would forfeit their policy interest.

- Day 145 Reallocate ownership interests and mail premium shortfall notice to investors on policy that sent in premium payment (45 days notice given)

- Each remaining investor has the option of submitting:
 - o No additional premium payment (which would maintain their percentage ownership interest)
 - o Their pro-rata share of the premium shortfall (which would increase their ownership interest based on their recalculated pro-rata share of the annual premium.)
 - o Any amount between their pro-rata share of the premium shortfall the entire premium shortfall on a first come first serve basis (in order to prevent policy from lapsing).

- Day 190 Deadline for return of Premium Shortfall by investors

- If there are insufficient funds to make premium Payment, VSI will first attempt to reduce the face value of the policy. If it can not be reduced, VSI will attempt to sell the policy or surrender the policy, if there is any cash value. If it can not be reduced, sold or surrendered, the policy will lapse and investors will lose their interests.

- Day 235 Remit premium payment to insurance company by policy due date.

While the above timeline may be shortened for those policies where investors return administrative fees and premiums earlier than their respective due dates, the

timeframe may also increase, and has increased, as a result of specific factors or issues related to individual policies that further complicate the process.

In order to implement the above billing and collection system, the Receiver's professionals have developed a Premium Billing and Tracking System ("PBTS") customized to our specific situation that allows for the allocation, reallocation and billing of administrative fees and premium payments to the more than 30,000 investment units that held interests in those policies that investors voted to keep. The PBTS has been designed to support the administration of the Keep Policies throughout the above process, enabling VSI to bill, collect, track and administer all policies, investor remittances and ownership interests on the approximately 3,000 Keep Policies. Due to the customized nature and the high level of complexity of this system, its development has been time consuming and requiring constant updating.

Administrative Fee Invoices for the Keep Policies

Nearly all administrative fee invoices were mailed to investors between September 2006 and December 2006. These administrative fees were required to provide needed funding for VSI, allowing VSI to continue to perform services as the viatical services administrator in connection with the maintenance of the policies.

The process of billing the administrative fees was complicated and delayed due to the poor state of Mutual Benefits' and VSI's records, as inherited by the Receiver, which contained incomplete and unreliable electronic records that could not be used to generate invoices without a thorough and comprehensive review of the underlying documents in each policy and investor file – approximately 37,000 such files.

As part of its review, VSI employees reviewed, compared and analyzed investor and policy information contained in both Mutual Benefits' databases as well as in the documents maintained in the company's paper files. From September through December 2006, the information contained in MBC's investor database was compared by hand search with over 30,000 individual investor files. During this necessary, but time consuming, process all relevant information either was confirmed or corrected in the company's databases, including investor ownership and demographic information. The process was further complicated as a result of the need to update many investor profiles with attorney contact information for those investors who had designated counsel to represent their interests. The administrative fee invoices were mailed to each investor only after VSI was able to confirm the accuracy and completeness of the investor data based on the best available data.

In addition to generating critical operating funds for VSI, which was nearly out of cash when it first began to collect administrative fees, the remittance of administrative fee invoices and collection of fees from investors also served as a necessary screening mechanism. Each administrative fee invoice clearly warned investors that the failure timely to pay administrative fees would result in the forfeiture of their investor interest in the policy. Since all investors owning interests in the Keep Policies were given the opportunity to maintain their policy interest, including those investors that had previously voted to sell their interest(s), the failure to pay the administrative fee reduced the need to send premium invoices to investors that had no intention to pay. By identifying those investors not willing to remit payment, premium shortfalls should be minimized,

reducing those instances where the reallocation of premiums and a generation of a second round of premium invoices would be required.

Premium Invoices for the Keep Policies

Similar to its review and comparison of the electronic investor data to investor files, before premium invoices could be sent to investors it was necessary for VSI to conduct a comprehensive review and comparison of the insurance policy databases to the insurance policy files. In addition to verifying the accuracy and completeness of the electronic information, insurance policy illustrations were ordered for each policy in order to determine and establish a level premium schedule that could be billed to investors. This process began during the administrative fee billing process and is now nearly complete.

The premium billing process, which commenced in February 2007, is the first point, after the administrative fee billing stage, at which an investor can be dropped from a policy, forfeiting his/her interest. As such, VSI has implemented a highly detailed process, consisting of more than 40 separate procedures designed to minimize the possibility of any investor being inadvertently or erroneously dropped from a policy and to determine that all premiums due are correctly calculated and properly allocated to each of the investors on the policy.

Through March 23, approximately 5,000 out of 20,000 premium notices have been mailed to investors. It is anticipated that nearly all of the remaining premium invoices will be mailed by the end of April 2007.

As directed in the Notices approved by the Court, investors currently have 90 days to remit their premium payment to VSI, as measured from the initial mailing date of

the invoice. This payment includes the investor's pro-rata share (a) of reimbursement due to the Receiver for any premiums paid by the Receiver after the later of the policy's original life expectancy date (as estimated by MBC) or June 30, 2006; and (b) of premiums required to establish an annual billing cycle concurrent with either the policy's anniversary date or a new anniversary date established by VSI, adjusted to limit the number of months of advanced payments that investors would need to pay on the initial premium invoice.

While VSI has received a limited number of premium payments to date, final payments for the first round of premium invoices will not be received until July 2007 under the current 90-day payment schedule. At the end of each policy's 90-day premium collection period, any premium shortfall will be reallocated to the policy's remaining investors and a second round of premium invoices will be sent out. Assuming a 45 day payment period on this second round of premium invoices, the entire premium billing and collection process is not expected to be completed until September 2007.

Collection of Premiums on the Keep Policies

In order to pay the policy premium due to the insurance companies, VSI must first collect 100% of the premium amount from all of the investors on a given policy, an amount to be paid pro-rata in accordance with each investor's percentage interest in the policy. This pro-rata allocation is very complicated on policies with a multiple investors, as the billing and collection process must be coordinated among all investors on the policy. Among the approximately 3,000 remaining Keep Policies, there are 482 policies with 10 to 49 investors, 74 policies with 50 to 99 investors, and 47 policies with in excess of 100 investors, including one policy with over 800 individual investors.

For example, on a Keep Policy with four hundred investors, it is first necessary to send an administrative invoice to all four hundred investors, regardless of whether they initially voted to keep or sell the policy. Assuming 300 investors return their administrative fee payment, the 100 investors that failed to submit a payment will forfeit their interest in the policy and a premium notice will be sent to the 300 investors that are still in compliance. Assuming 250 of these 300 investors pay their newly recalculated pro-rata share of the premium, VSI will reallocate the shortfall brought about by the 50 investors that acknowledged that they will pay the premium, but failed to do so nonetheless. A premium shortfall notice will be sent to the 250 investors still in compliance, giving them the option of picking up their pro-rata share of the shortfall. Alternatively, to protect the policy from lapsing, any of the remaining 250 investors has the option of mailing additional funds, up to the entire amount of the premium shortfall to VSI on a first come first serve basis, taking over that percentage interest of the policy. Any remaining shortfall will prevent VSI from paying the premium on the policy, putting the remaining 250 investors' investments at risk. VSI will first try to reduce the face value of the policy. If it cannot, it will attempt to sell or surrender the policy. If VSI is unable to do so, the policy will lapse and the investors will lose their investment.

The Current Cash Flow Situation to Pay Premiums on the Keep and Sell Policies

As reflected in the following Schedule A, the Receivership has entered into a critical phase with regard to cash available to pay the premium payments on the Keep Policies.

Schedule A

	(\$ thousands)						
	Mar 2007	Apr 07	May 07	Jun 07	July 07	Aug 07	Sep 07
Premium Funds Available - Beg. Of Month	\$ 8,582	\$ 5,303	\$ 2,224	\$ (2,257)	\$ (5,643)	\$ (7,691)	\$ (10,716)
Premium on Keep Policies w/in Life Expectancy	\$ (913)	\$ (815)	\$ (696)	\$ (633)	\$ (575)	\$ (383)	\$ (548)
Premium on Keep Policies outside of Life Expectancy	(2,058)	(1,769)	(3,323)	(2,753)	(1,473)	(2,642)	(2,495)
Premium on Sell Policies - Pool 1	(107)	(203)	-	-	-	-	-
Premium on Sell Policies - Pool 2	(201)	(292)	(462)	-	-	-	-
Total Monthly Premium Outlay	\$ (3,279)	\$ (3,079)	\$ (4,481)	\$ (3,386)	\$ (2,048)	\$ (3,025)	\$ (3,043)
Premium Funds Available - End of Month (assuming no reimbursement)	\$ 5,303	\$ 2,224	\$ (2,257)	\$ (5,643)	\$ (7,691)	\$ (10,716)	\$ (13,759)

The above Schedule A reflects cash outflows from the MBC premium accounts in the following four policy categories:

- a) Keep Policies Within Life Expectancy – Those Keep Policies where the Receiver has been ordered by the Court to pay premium payments through their originally projected life expectancy.
- b) Keep Policies Outside of Life Expectancy – Those Keep Policies where investors are obligated to fund premium payments made subsequent to June 30, 2006 that were beyond their originally projected life expectancy. The Receiver has made all payments on behalf of these investors through the present in order to prevent any policy from lapsing. The Receiver is seeking reimbursement on these policies through the premium billing process.
- c) Sell Policies: Pool 1 – Those Sell Policies having a cash value of at least 5% or greater of the policy's face value.

- d) Sell Policies: Pool 2 - Those Sell Policies having a cash value of less than 5% of the policy's face value.

Schedule A does not project any cash inflows generated from (a) investor reimbursement of premiums advanced by the Receiver, as ordered by the Court, or (b) timely payment of premiums collected from investors, as there has been a *de minimus* number of premium payments that have been received to date on the approximately 5,000 premium invoices mailed to investors. Because all of these invoices are still within the 90-day period that investors have been given to remit their premium payments, there is no historical information or other data reliably to estimate either the number of investors that will actually send in such payments or the amount of premium dollars that will be collected.

Schedule A consequently reflects the accumulating monthly deficits assuming no premium funds are recovered. To the extent that the Receiver is reimbursed for premium outlays advanced subsequent to the June 30, 2006 cut-off date (for the Keep Policies beyond life expectancy), the depicted monthly deficit balances will shrink commensurate from the reimbursements received. However, there is no way reliably to predict this cash flow.

Similarly, to the extent that the premium billing, reallocation and collection process is completed and fully funded prior to a policy's premium due date with the insurance company, the Receiver will not have to make such premium payments with MBC Premium Account funds, likewise reducing the deficit balances indicated on Schedule A.

The premium amounts reflected on Schedule A have been estimated using the assumptions:

- a) All premiums are paid on their due dates at the mode currently assigned to the policies (i.e. annually, semiannually or quarterly). It may be possible, in some cases, to reduce the amount of premium payments and/or slow down the timing of such payments.
- b) Premium payments have not been adjusted for policy dividends that will reduce the premium obligation.
- c) Policy maturities have not been considered in estimating premium payments.
- d) Pool 1 Sell Policies will be sold by April 30, 2007, eliminating the premium obligations on these policies as of that date.
- e) Pool 2 Sell Policies will be sold by May 31, 2007, eliminating the premium obligation on these policies as of that date.

The aggregate balance of the MBC Premium Accounts, as of March 23, 2007, is approximately \$6.2 million. It is anticipated that the Receiver will have completed the premium billing process, including the reallocation and collection of the premium shortfall, by September 30, 2007.

As reflected in Schedule A, by September 30, 2007, the MBC Premium Accounts will have a cash deficit of approximately \$13.76 million (assuming no investor premium payments or reimbursement). **Unless investor premium payments are received in an amount sufficient to cover this \$13.76 million shortfall, Keep Policies will begin to**

lapse by as early as May or June 2007, and investors on those policies will lose their entire investment.

Keep Policies Within Life Expectancy

Schedule B below reflects the premium payments on the Keep Policies within Life Expectancy – computed to continue through April 2010. Of course, if the Receiver has no monies available to pay these premiums, the payments can not be made.

Schedule B

	(\$ thousands)						
	Mar 2007	Apr 07	May 07	Jun 07	July 07	Aug 07	Sep 07
Beginning Balance on Premiums Needed to Pay Keep Policies within Life Expectancy	\$ 8,035	\$ 7,122	\$ 6,307	\$ 5,611	\$ 4,978	\$ 4,403	\$ 4,020
Premiums Paid on Keep Policies w/in Life Expectancy	(913)	(815)	(696)	(633)	(575)	(383)	(548)
Ending Balance on Premiums Needed to Pay Keep Policies within Life Expectancy	\$ 7,122	\$ 6,307	\$ 5,611	\$ 4,978	\$ 4,403	\$ 4,020	\$ 3,472

As reflected on Schedule B, as of March 1, 2007, the amount required to fund all Keep Policy premiums through their originally projected Life Expectancy is estimated to be approximately \$8.0 million. This amount will decline to approximately \$3.5 million by September 30, 2007 as a result of \$4.5 million in estimated premium payments to be made through that period.

Schedule C

(\$ thousands)			
Premium Funds Available as of March 1, 2007	\$ 8,582		
Total Premium Payments: March 1 - Sept 30, 2007	(22,341)		
Cash Deficit (Without Premium Reimbursement)	\$ (13,759)		
Premiums Needed to Pay Keep Policies within Life Expectancy as of Sept. 30, 2007	\$ 3,472	Total Reimbursement to be sought from Investors	\$ 35,700
Total Reimbursement Required to Make Premium Payments through Sept. 30, 2007 and to fund Premiums for Keep Policies within Life Expectancy	\$ 17,231	% Reimbursement Required to Make Premium Payments through Sept. 30, 2007 and to fund Premiums for Keep Policies within Life Expectancy	48.3%

As reflected on Schedule C above, in order to completely fund both the \$13.76

million projected cash deficit (as reflected on Schedule A) and the \$3.47 million to fund premiums for Keep Policies through their original Life Expectancy (as reflected on Schedule B), investors must make timely premium payments (including reimbursements) totaling at least \$17.2 million.

It is anticipated that as of September 30, 2007, the total amount of reimbursable premium funds due to the Receiver will be \$35.7 million, of which nearly 50% must be timely collected in order to fully fund all premium obligations. If investors fail to mail in premium payments on the policies they voted to keep, policies will begin to lapse and investors on those policies will lose their entire investment.

**FLEXIBILITY IS RECOMMENDED
TO MINIMIZE AND AVOID THE LAPSING OF THE KEEP POLICIES**

The investors that voted to retain the Keep Policies and to assume responsibility for payment of their share of the premiums on those policies were aware of, and assumed, the risks, known and unknown, that the Keep Policies could lapse. They voted to retain their interest in the Keep Policies in the hope that the reward from the collection of the death benefits upon maturity on those policies would outweigh the risks.

Although the investors on the Keep Policies assumed these risks, in an effort to assist these investors, the Receiver would like to take additional steps to avoid or minimize, if possible, the Keep Policies from lapsing.

Because of the large number of policies and the multiple number of investors in most policies, the Receiver anticipates that there will be many unique policy-specific problems with numerous unknown risks resulting from the failure by investors to pay

their premium obligations timely or not at all. In order to take corrective steps, as the situation arises, to avoid and minimize the number of policies from lapsing, if possible, the Receiver requests that the Court afford VSI the flexibility to use its discretion to take steps, whatever those may be under each circumstance, to handle policy-specific scenarios as they arise. Some of the possible situations that may arise are set forth below.

The "Bad" Policies

An inescapable fact of this Receivership is that for a number of the Keep Policies it simply makes no economic sense to continue to fund premiums and throw good money after bad. There are policies that would most certainly be rejected by investors once they receive the premium notices. Two examples of such policies are as follows:

Policy A

- The policy has a face value of \$100,000 and no cash value.
- There are 3 remaining investors on the policy.
- The Receiver has already advanced and is entitled to reimbursement of \$39,435 on the policy for premiums paid beyond June 30, 2006.
- The next premium due on the policy is for \$35,089, which cannot be adjusted.
- Investors received premium invoices for their pro-rata share of \$74,524 on a policy with a face value of \$100,000.
- The following year, the premium will increase to \$40,545.
- The insured is 88 years old.

In this real life example, 3 investors will be obligated to decide whether they would like to gamble by paying \$74,524 to collect \$100,000 in the hopes that the policy on an 88 year old women will mature before the next premium payment is due. As required by the Disposition and Clarification Orders, the Receiver advanced the funds for the investors' benefit by making the premium payment of \$39,435 in order to prevent the

policy from lapsing. It is doubtful that this money will be reimbursed. The Receiver should not have to continue to function like a lending institution for the investors on the Keep Policies.

Policy B.

- The policy has a face value of \$1,000,000 and cash value of \$13,186.
- There are 17 remaining investors on the policy.
- The Receiver has already advanced and is entitled to reimbursement of \$230,945 on the policy for premiums paid beyond June 30, 2006.
- The next premium due on the policy is for \$90,000, which cannot be adjusted.
- Investors received premium invoices for their pro-rata share of \$320,945 on a policy with a face value of \$1,000,000.
- The policy expires on May 13, 2008.
- The insured is 94 years old.

In this second real life example, 17 investors will be obligated to decide whether they would like to gamble by paying \$320,945 to collect \$1,000,000 in the hopes that a policy on a 94 year old man will mature before the policy expires within the following year. Again, as required by the Disposition and Clarification Orders, the Receiver has advanced the funds for the investors by making the premium payment of \$230,945 to prevent the policy from lapsing, although it is doubtful that this money will ever be reimbursed.

These are but two of many examples where the economics of a policy do not warrant the continued payment of premiums. In those instances where there is sufficient time to allow investors to make their own decisions, the Receiver would naturally allow the investors to make the decision for themselves. However, in those instances where the Receiver does not have the approximately 150 days required to invoice investors and

must use precious remaining premium funds to make these futile payments, the Receiver respectfully request that the Court allow the Receiver and VSI to use its discretion to make such decisions for the benefit and welfare of all investors. The Receiver respectfully submits that the receivership should not be required to serve as a bank to advance money to pay the premium obligations for investors on the Keep Policies without an objectively reasonable expectation of repayment.

The 90 Days Billing/Collection Period Should be Shortened to 45 Days

As disclosed in the Notice to Investors (which was mailed to each investor in conjunction with their Voter Preference Form), investors are required to pay within 90 days their pro-rata share of the premiums due. In light of the current cash flow situation, and the need to accelerate collection from investors, the Receiver requests authority from the Court to send notices to all remaining investors to pay their premium payment within 45 days of mailing by VSI rather than the 90 days period currently in effect.

Approximately 15,000 of out of the 20,000 premium invoices will be sent out over the next 6 weeks. If the Court is inclined to shorten the time period for payment, then, respectfully, the sooner the Court authorizes the change to 45 days, the sooner the Receiver can change the due date on these remaining invoices.

An issue that would need to be addressed by the Court, should the Court determine to reduce the time period, is how to handle the premium invoices that have already been sent out as well as those that will be sent out between now and the date that the Court authorizes the 45 days billing period. VSI is currently preparing and mailing approximately 400 invoices per day. If an Acceleration of Premium Payment notice is sent to those investors that have already received a 90 days invoice, then the Court would

need to decide whether the notices should be mailed before or after the mailing of the first round of premium invoices is completed and whether the new due date should be 45 days from the mailing of the Acceleration of Premium Payment notice or 45 days from the original invoice mailing date.

The Receiver recommends that, in light of the exigencies of the current cash flow situation, should the Court authorize a shortened time period, which the Receiver recommends, the Receiver immediately should send an Acceleration of Premium Payment Notice to those investors that received a 90 days notice, but that have not yet paid and that have more than 45 days remaining for payment, giving them 45 days to pay from the date of the new mailing, explaining that this acceleration is being done to take the steps necessary to minimize the risk of the policy lapsing. (For some of the early 90-day premium invoice mailings, the need to send an acceleration notice may be moot.) If VSI fails to receive the payment by the new due date, then, in conformity with established practice authorized by the Court, a forfeiture and reallocation, if possible, of the investor's interest would occur.

Universal Life Policies

Included in the Keep Policies portfolio are 1,056 Universal Life Policies with a Face Amount of \$811.9 million. The aggregate Annual Premium for these policies is \$30.2 million, which accounts for more than 88% of the Receivership's annual premium requirements.

Universal Life policies have flexibility regarding the face amount of coverage and timing of premium payments. Throughout the Receivership, VSI has attempted to minimize premium payments on Universal Life Policies by accessing the cash value in

the policy to pay and/or reduce premium obligations. Prior to the remittance of any additional premiums, it would be possible to review each of these policies on a policy by policy basis and attempt to eliminate the need to make any premium payments over the next 6 months. This could, however, significantly increase the amounts owed by investors on future premium obligations. In addition, such a strategy could narrow the window of time available to invoice investors for future premium payments, creating additional risk and uncertainty, increasing the likelihood of a policy lapsing.

Whole Life Policies

Included in the Keep Policy portfolio are 1,149 Whole Life Policies with a Face Amount of \$116.0 million. The aggregate Annual Premium for these policies is \$2.3 million, which accounts for nearly 7% of the Receivership's annual premium requirements.

Whole Life Policies, unlike Universal Life Policies that have flexibility regarding the face amount of coverage and timing of premium payments, do contain features that can allow some degree of flexibility.

a) Reduced Paid-Up Insurance

If elected, no additional premium payments would be due on the policy. In most cases, the new face amount will be less than the original policy face amount. No benefits from riders contained in the original policy will be provided after this option goes into effect.

b) Extended Term Insurance (ETI)

ETI is level term insurance for which no additional premiums would be due on the policy for the amount of the newly designated term. The face amount

will equal the face amount of the original, plus any Paid-Up Additional insurance previously provided by dividends or dividend accumulations less any unpaid loans.

c) Minimum Deposit

“Minimum Deposit” applies only to policies that were issued by a mutual life insurance company that pays dividends to its policyholders. Under a minimum deposit scenario, the policy holder pays the premium due by borrowing against the policy’s cash value and would elect Paid Up Addition (PUA) as a dividend option, which would be used to purchase additional death benefit. The result is that the original policy face amount has now increased in the aggregate. Upon the insured’s death and payment of the death benefit proceeds, the loan taken against the policy cash value would be paid by the additional death benefit.

As these Universal Life and Whole Life strategies could generate immediate cash savings of as much as \$5 million over the next 6 months, the Receiver once again requests that this Court afford VSI the discretion to use its best judgment on a case by case basis.

Reimburse Receiver for Premium Payments Paid on Sell Policies

Since July 1, 2006, the effective date on which all investors of Keep Policies became responsible for making premium payments, approximately \$6 million in premiums have been paid on Sell Policies. It is the Receiver’s belief that because (a) these premiums represent expenses that were incurred in order to conduct an orderly sale of these policies, and (b) because investors were entitled to the death benefits for those policies that matured prior to the sale (indeed there have been a number of Sell Policies

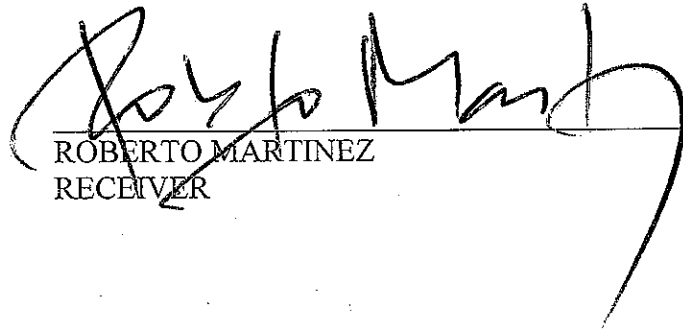
that have matured since the conclusion of investor voting), these premiums represent reimbursable expenses of the Receiver, which should be paid out of the sale proceeds. These reimbursements would be placed into the Receiver's Premium Account.

CONCLUSION

The Receiver respectfully requests that the Court set a status conference to address the matters set forth herein.

DATED: March 27, 2007

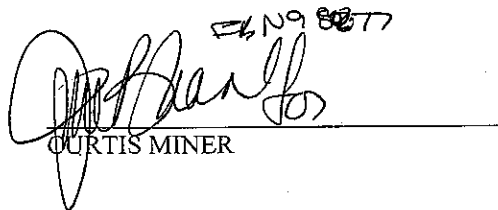
Respectfully submitted,



ROBERTO MARTINEZ
RECEIVER

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was served by electronic mail to the parties on the attached Receiver's Service List on March 27, 2007.

ELN9 8277


CURTIS MINER

SERVICE LIST OF RECEIVER

Case No.: 04-60573 CIV-Moreno

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